Private Equity: The Exit Strategy Conundrum

By: Martin Kevin Ssemwogerere

Student Number: 320216

Ethics Clearance number: CACCN/1045

Supervisor: Kwasi Okyere-Boakye

RESEARCH REPORT

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DECLARATION

I declare that this research report is my own original work and that all sources have been accurately reported and acknowledged. It is submitted in partial fulfilment of the requirements for the degree of Master of Commerce in Accountancy at the University of the Witwatersrand, Johannesburg (50% research report). This research has not been submitted for any degree or examination at any other university. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

20/02/2015

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Martin Kevin Ssemwogerere Date

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ABSTRACT

This research report investigates the influence of economic cycles on the private equity exit medium and the related acquisition finance sources used in the exit of an investment. This study adds to the current body of knowledge by generating a suggestive investment exit working model for private equity fund managers in South Africa. A portfolio construction method was used to determine the dominant private equity exit medium in South Africa between IPO's and M&A's for the years 2004 to 2013. The results indicate that on a cumulative and annual comparison basis, IPO private equity exit mediums are more dominant than M&A private equity exit mediums. The results further indicate that IPO private equity exit mediums are more successful during favorable economic conditions as opposed to M&A private equity exit mediums. Conversely, M&A private equity exit mediums are more prevalent during less favorable economic conditions. The favorability of economic conditions was observed through annual GDP indicators. Ancillary investigations in this study indicate that the dominant source of acquisition finance at the point of private equity exit in South Africa is private equity. This implies that certain investments are particularly attractive to private equity investors and are therefore refinanced through private equity by subsequent acquirers. It is also evident that the activity of private equity exits in South Africa is quite negligible as a proportion of total international activity.

DEFINITION OF TERMS AND ABBREVIATIONS

Abbreviations

B-BBEE - Broad Based Black Economic Empowerment

BRICS - Brazil, Russia, India, China and South Africa

COSATU- Congress of South African Trade Unions

GDP - Gross Domestic Production

IPO - Initial Public Offering (Listing of a corporate entity's equity shares on a public securities exchange)

JSE - Johannesburg Stock Exchange

M&A - Merger and Acquisition

MNC- Multinational Corporation

NDP- National Development Plan

NPC- National Planning Commission

PE - Private Equity

USA - United States of America

OECD- Organization for Economic Co-operation and Development

OUTA- Opposition to Urban Tolling Alliance

VAT- Value Added Taxation

VAT vendor- A business enterprise which is legally obliged to levy VAT

SARS- South African Revenue Services

Definitions

e-Tolling- Electronic public road usage billing system.

Private Equity- An asset class of equity instruments (held in an established operating company) which are largely financed by debt and are not traded on a public securities exchange.

Private Equity Exit- The procedure that a private equity investor follows to partially or completely divest from its ownership and control in an investment.

Private Equity Fund- A pool of independently managed monetary funds which is contributed by individual investors for reinvestment in the pursuit of value returns to the fund holders and owners.

Private Equity Investment- A corporate entity or business which is acquired and managed by a private equity fund for value creation over a specified amount of time.

Private Equity Exit Medium- The channel, such as IPO or M&A, through which a private equity exit is executed.

Tax Jurisdiction- Country or territory which applies independent tax legislation.

Venture Capital- Investment in a start-up business with perceived long term growth.

CHAPTER I – INTRODUCTION

1.1 PRIVATE EQUITY IN EMERGING MARKETS

Private equity (PE) is becoming a significant contributor to commercial investment in emerging markets. As global economic integration evolves into a widespread phenomenon, the structure and method of commercial investment in emerging markets is evolving to meet the benchmarks of global standards. Commercial investment can be exercised through various means, but the fast pace and volatility of modern business cycles has inspired more investors into short term investment for faster value creation(Popper, Perez-Quiros, & Chuhan, 1996). Private equity is one of the investment tools which have become more popular for investors who seek to pursue commercial investment over a short to medium term. This is due to the strategic management of investment return volatility over the short to medium term of investment.

North American and European markets have observed the growth and maturity of private equity investment for a considerable period as compared to other international regions (Sohl, 2003). Some of the world's largest private equity funds and private equity specialist firms reside in North America and Europe. This may be due to the fact that commercial investment infrastructure and general investment skills which allow private equity to flourish have been in existence with a high degree of proficiency in North America and Europe for a considerable amount of time (Sohl, 2003). Components of infrastructure which are necessary for effective private equity execution include an effective merger and acquisition regulatory authority, and a reputable public securities exchange.

Global economic integration has inspired the emergence of more commercial investment infrastructure and skills in regional emerging markets. This infrastructure includes more robust corporate regulations, more effective commercial investment regulatory bodies, and more reputable public securities exchanges (Prahl, Cannarsi, & Zeisberger, 2011). A decline in political and economic instability in emerging markets has caught the attention of investors who foresee the value creating potential of emerging market commercial investments. China and India are examples of emerging markets which have demonstrated the ability to transform into regions which are formidable global economic players through political, social, and economic improvement(Hofstede & Bond, 1988). Therefore, China and India have observed a significant increase in private equity investment as foreign investors use private equity as a tool for exposure to economic gains and returns in these emerging markets (Prahl et al., 2011).

Economic returns for the private equity investor are mostly realized at the point of exit from the investment. A private equity exit typically involves the complete or partial disposal of private equity ownership or control in the acquired investment. The acquired investment tends to be a commercial entity which is acquired by the private equity investor, is managed to improve its value, and is subsequently completely or partially disposed of to realize the additional value which has been created (Barber & Goold, 2007). Private equity investors seek exposure to investments through collective investment structures such as private equity funds. The private equity fund is managed by appointed managers who reinvest the funds in order to make a return for the individual fund holders. In order to generate sufficient returns, the exit must be successfully executed in order to realize the additional value created in the relevant investment. A successful exit execution requires various elements which include an appropriate exit medium.

It is important to note that a private equity exit medium requires an appropriate method of disposal such as an Initial Public Offering (IPO), which is a listing of a corporate entity's equity shares on a public securities exchange, or a Merger and Acquisition (M&A) which is a strategic amalgamation of separate business entities through a private exchange. The chosen method for disposal may dictate the type of finance that the acquiring party will present at the point of exit.

SOUTH AFRICAN PERSPECTIVE

South Africa is currently one of Africa's leading economic emerging markets. This is evidenced by the inclusion of South Africa into the BRICS[1] economic alliance (Draper, 2011). Therefore South Africa has caught the attention of domestic and foreign investors who wish to gain from its current and prospective economic prosperity. Global economic integration has inspired political and economic stability in South Africa, through democracy and robust economic policy (Carmody, 2002). Commercial investment infrastructures in South Africa such as the Competition Commission and the Johannesburg Stock Exchange have enabled the effective execution of IPO's and M&A's. The Competition Commission is a statutory body constituted in terms of the Competition Act, No 89 of 1998 by the Government of South Africa empowered to investigate, control and evaluate restrictive business practices and abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy(CCSA, 2014).

Private equity is a recognizable participant in commercial investment activity within the South African context (Iheduru, 2004). Some investors who seek to gain from South Africa's economic growth and prosperity make use of private equity investment structures in order to realize prospective value over the short to medium term. Identifying a successful private equity exit is essential in the South African context from the individual investor's perspective, as private equity activity in South Africa is relatively new, and is still maturing as compared to North America, Europe, and emerging markets such as China and India.

[1] **BRICS** is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa.

The South African business environment faces unique challenges and obstacles such as labour unrest, political instability and macro-economic volatility (Buhlungu, 2006). These challenges pose a threat to the economic success of businesses which are potential investments for private equity investors. This places great emphasis on thorough private equity exit execution, through an appropriate exit medium in order to return sufficient value to private equity fund holders.

1.2 MODEL FOR SOUTH AFRICAN PRIVATE EQUITY

Global economic integration has made it increasingly difficult for many countries to be isolated from global economic events and effects. This may be evidenced by the phenomenon of the global economic recession. The most recent global economic recession resulted into macro and micro economic shrinkage in South Africa (Marais, 2011). Despite predetermined private equity exit strategies, private equity fund managers must pursue the maximisation of value returns for private equity fund holders despite changes in macro and micro economic conditions (Sohl, 2003). Therefore, the most appropriate exit mediums, such as IPO's or M&A's, must be chosen and executed at any given opportunity to realize or salvage investment value.

In South Africa, a sufficiently researched private equity exit model that guides private equity fund managers during changing macro and micro economic conditions as a result of global economic influences could not be found in published literature. This research report intends to analyse and determine the current dominant private equity exit medium, and the related types of acquisition finance at the exit point during various economic cycles, as a suggestive working model for private equity fund managers in South Africa.

1.3 RESEARCH OBJECTIVE

The objective of this study is to investigate the influence of economic cycles on the private equity exit medium and the related acquisition finance types at exit. This serves to generate a suggestive working model for private equity fund managers in South Africa. The basis of the research results seeks to provide private equity fund managers with further insight into which private equity exit medium is more suitable in relation to the applicable macro-economic cycles.

1.4 SIGNIFICANCE OF THE RESEARCH

The significance of this research can be found in its contribution to existing practice in South African private equity. The recommendations proposed on the basis of the research results outlines guidelines to private equity fund managers on the exit mediums that are likely to maximize returns during the relevant macro-economic cycles. International perspectives on South African private equity will be enriched from the interpretations within this research as foreign investors increasingly seek researched models which will increase their understanding of the South African private equity investment environment. Therefore, this research report serves as an improvement on the research methodology and results of other studies on the topic of South African and related international private equity.

1.5 RESEARCH QUESTIONS

The problem expressed above will be addressed in this research report by investigating the following research questions:

Main research question

What is the dominant private equity exit medium in South Africa?

Ancillary research questions

1. What is the dominant finance source at the point of private equity exit?
2. How many private equity exits have been executed in South Africa in comparison to other countries for the period 2004 to 2013?

CHAPTER II – BACKGROUND

LITERATURE REVIEW

This literature review begins with an exploration of industry standards and norms for private equity exit. Secondly, a review is performed on other empirical research which investigates exit strategies in private equity and similar investments. Finally, private equity is examined in a South African context.

INVESTMENT INFRASTRUCTURE

Investment exit mechanisms are a vital part of any private equity transaction. The timing and realization of private equity investments requires the satisfaction of the objectives of all the affected parties (Wright, Robbie, Thompson, & Starkey, 1994). Information asymmetry introduces an element of estimation risk which creates value estimation and value extraction risks for private equity investments (Barry, Muscarella, Peavy Iii, & Vetsuypens, 1990) . A private equity exit's success is based on the value that is realized or salvaged from the investment (Barry, 1994). The most common exit mediums for successful private equity investments are IPO's or M&A's (Visnjic, 2013). Even though a private equity exit medium can be predetermined, unforeseen changes in general economic conditions may warrant the execution of an alternative exit medium at any given time in order to realize or salvage the value of an investment (Mason & Harrison, 1997). Similar research was conducted in China and India, investigating the dominant private equity exit medium for the calendar period between the year 2000 and 2010 (Prahl et al., 2011). The results indicated that the dominant exit medium were IPO's and M&A's respectively. In China, IPO exit activity was more frequent during the years of general economic prosperity (Ippolito, 2007). This was due to enabling commercial investment infrastructure such as a reputable public securities exchange (Prahl et al., 2011).

EMERGING MARKETS

M&A was the dominant private equity exit medium in India from 2000 to 2010 (Prahl et al., 2011). This was due to greater reliance on M&A acquisitions due to an arguably less reputable public securities exchange (Annamalai & Deshmukh, 2011). In India, IPO exit activity has been more frequent during years of general economic prosperity. M&A activity tends to flourish in environments where acquiring investors treasure to a greater extent, future investment ownership and control (Black & Gilson, 1998). IPO activity involves dilution of investment control and ownership through a larger equity holder base and is therefore less popular in environments where acquiring investors treasure to a lesser extent, future investment control and ownership (Sohl, 2003).

In Brazil, stock listing requirements were revised and redesigned in 2000 in order to make the public securities exchange more compatible to commercial investment objectives. This resulted in the growth of IPO activity in Brazil from 2004. IPO private equity exits similarly became more frequent due to the enabling environment with regards to a more reputable public securities exchange (Minardi, Ferrari, & AraújoTavares, 2013). Investment equity disposal mediums such as the IPO are largely not immune to general economic conditions (Campbell, Lo, MacKinlay, & Whitelaw, 1998). In Brazil, IPO private equity exits were mostly unsuccessfully executed during the global economic recession climax in the last quarter of the 2008 year (Minardi et al., 2013).

RETURNS ON EXIT

The success of a private equity exit, which may be assessed from the value realized over the duration of the investment period, can be quantified in the valuation of the fund through which investment activities were conducted. Inflows of capital into private equity investment funds results in higher valuations of those funds and the investments managed by those funds (Gompers & Lerner, 2000). Therefore it is essential for private equity fund managers to consider the effect that capital investment inflows may have on the value that may be realized at the point of exit from the relevant investment. Capital funders of private equity funds base their investment decision on the various factors which include the track record of the fund manager (Scharfstein & Stein, 1990).

However, research has shown that the most important investment decision factors for capital funders of private equity funds are the valuation of the investment and the relevant investment fund (Froud & Williams, 2007). The valuation of a private equity investment is driven by the assumptions of future earnings which are to be realized through the intended exit medium (Ohlson, 1995). Therefore, as the intended exit medium influences the valuation assumptions of the private equity investment, it is essential for the private equity fund managers to select the exit medium through an exit strategy which will gain investor confidence by the demonstration of a plan for value realization at the point of exit.

Private equity funds are merely investment tools through which investors with specific investment needs pursue returns. These returns are perceived to be in cash or realization of value, but such returns may be pursued through various investment tools besides private equity. However, an investor would not necessarily pursue returns through public equity markets despite the possibility that the expected returns from either investment tool are similar in nature. Returns from private equity fund investments exceed public equity market returns by five plus percent per annum (Ljungqvist & Richardson, 2003). Therefore it is essential for private equity fund managers to acknowledge that shareholders expect a return which exceeds the alternative return from public equity markets. The exit strategy of a private equity investment must take into account the expected level of return for the fund equity holder due to the value expectations created by the private equity fund managers at the time of the investment value proposition (Cumming & Walz, 2010). Therefore it is essential to consider the exit medium which may best position the private equity investor to obtain the expected return from the relevant investment.

Venture capital is another investment tool which serves as an alternative for investors who expect returns for their capital contribution. Venture capital is similar to private equity by the nature of the investment structure, but it differs in various aspects such investment equity ownership, and executive management of the business operations. Venture capital investors seek to participate in the equity holding and executive management of the investment in a collaborative capacity with other investors, whereas private equity investors seek to participate in the equity holding and executive management of the investment in a less collaborative capacity with other investors predominantly through leveraged buy-outs. Research has shown that private equity investments through leveraged buy-outs are more scalable than venture capital investments as a function of past investment successes (Metrick & Yasuda, 2010). Therefore the private equity fund manager must consider the impact that the exit strategy will have on future fund performance as a result of past fund performances as may be demonstrated by the success of the applied exit strategies and robustness of the executed exit mediums.

Due to the inherent risk linked to the certainty of returns in equity defined investments, the capital contributor who pursues returns through private equity may adopt a risk profile which matches the variability of the expected returns. There is a strong correlation between realized risk and investor returns (Ewens, Jones, & Rhodes-Kropf, 2012). Therefore the private equity fund manager should consider the exit strategy and medium that may realize the best returns as expected by the fund equity holder as a function of their perceived risk appetite. IPO's are generally more risky than M&A's in the execution of private equity exits due to the diverse and dynamic characteristics of the relevant investment environment and conditions (Visnjic, 2013). However, historical evidence has shown that IPO's are more successful than M&A's as exit mediums across a wide spectrum of economic environments and investment conditions (Prahl et al., 2011). This is an indication to private equity fund managers about the preference of fund equity holders with regards to exit mediums which create more value exposure despite the increased exposure to risk in relation to returns variability.

For investments that are acquired for future disposal, IPO exit mediums are positively related to the total amount of financing and the annual profitability of the investment (Wang & Sim, 2001). Therefore the performance of a private equity funded investment, and the amount of capital that is injected into the investment may dictate the type of exit medium and strategy that may be executed. Private equity fund managers need to be conscious of the impact that the day to day management of the investment may have on the success of the exit due to the inevitable exit medium that will be chosen and the likelihood of its execution due to several factors which may be beyond the control of the investment managers. Research has shown that IPO timing does not affect the success of a private equity exit strategy (Cao, 2011). Therefore private equity fund managers should consider IPO exit mediums regardless of the volatility of market conditions as the success of the exit strategy may depend more on other factors, such as the valuation of the related investment.

Private equity funds are able to exploit economies of scale in trading and transaction costs which increases returns to investors. Under circumstances where economies of scale may be exploited, there should be a negative relationship between the expense ratios and fund assets (Ferris & Chance, 1987). Therefore private equity funds protect investors from day to day losses from operations which may have a temporary adverse effect on the share price of a private equity investment. Private equity funds provide individual investors with professional expertise which is necessary in the generation of abnormal gains (Servaes, 1991).

As per the evidence of research which is critical of the efficient market hypothesis, today's share price is uncorrelated to yesterday's share price and therefore this discredits technical analysis in the earning of abnormal gains (Malkiel, 2003). However, according to evidence of research which supports the efficient market hypothesis, markets possess informational efficiency which implies that publicly available information is embedded within the factors which influence share prices (Basu, 1977). Therefore, fundamental analysis may not be a factor which significantly prevents the realization of abnormal gains within private equity funds, as performance is a function of the growth in the value of the private equity investment. The efficient market hypothesis is a theory that may not be successfully applied by private equity fund managers to predict the future performance as private equity investment value is influenced by private market factors(Timmermann & Granger, 2004).

Private equity capital contributors are more concerned with the return on investment than the administration fees which may be incurred by the fund (Tosi Jr & Gomez-Mejia, 1989). The cost of administration fees is perceived to be offset by the long term gain in investment value. Therefore, fund managers may pursue high risk investments in order to produce higher returns on investment as is evidenced by research which proves the agency theory (Arrow, 1984).

The general economic environment of a country influences commerce in ways which pose a long term or short term consequence with regards to commercial viability of transactions (Akyüz, 2011). Investors assess the commercial viability of investments by considering the impact of historical events within the general economic environment of a country (Bondy & Talwar, 2011). Therefore, if general economic indicators such as the real GDP growth rate of a country are truly reflective of the economic viability of commercial activities within a state, investors are likely to consider this as a reflection of the commercial viability of transactions and investments. It is essential to note the nature, timing and extent of economic events within the context of investment decisions as the well-being of any business, is related to the economic well-being of the country or state within which it operates (Martin, 2011).

As private equity exits are realized through the execution of IPO or M&A exit mediums, the viability of these mediums needs to be considered under different economic circumstances. IPO's tend to be more easily executed than M&A's due to the differences in the processes which are carried out in order to realize their execution (Celikyurt, Sevilir, & Shivdasani, 2010). IPO's attract investors who wish to trade on a publicly conducted exchange which requires minimal or no negotiation and bargaining with the selling parties of equity stakes. M&A's attract investors who wish to trade in less public exchanges which require more direct negotiation and bargaining with the selling parties of equity stakes. Therefore, IPO orientated investors are likely to invest available disposable income readily during more favorable economic circumstances (Nofsinger, 2005). M&A orientated investors are likely to invest available disposable income more readily during less favorable economic circumstances which render public securities more volatile and unpredictable (Nofsinger, 2005). This is a phenomenon which is termed behavioral finance as it rationalizes the reactions of investors to general economic indicators which reflect the viability of commercial investments and transactions (Fama, 1998).

SOUTH AFRICAN PRIVATE EQUITY

South Africa experienced an increase in M&A activity from 1994 until a peak was reached in 1998 (Chabane, Roberts, & Goldstein, 2006). Several changes and factors in the South African commercial investment regulations inspired the increase in M&A activity during this time period. Government policies such as the liberalization of trade and exchange controls increased the integration of the South African economy with the global economy. State owned entity privatization, commercial investment regulatory reform, and B-BBEE ownership corporate incentives also contributed to the increase in M&A activity (Chabane et al., 2006). In addition, the adoption and implementation of corporate governance practices which facilitated more transparent M&A procedures and practices provided a more conducive environment (Centre & Enterprise, 2003). These procedures and practices were aligned to emerging international practices as a result of economic globalization (Wise, 2003).

The post-apartheid re-admission of South Africa into the international community promoted a degree of deregulation and transformation of the JSE. This was an attempt to re-stimulate both local and international interest in the South African securities market (McKie, 1995). In 1995 the public securities trading system was amended from a pure stock broker dependent system with regulated commissions, to one where dual capacity trading and negotiated commissions are allowed (Page, 1997). Foreign membership of the JSE and non- broker ownership of stock broking firms also became permissible during this time period. The JSE introduced a screen trading system in 1996 to replace the previous system of open outcry on a trading floor. All these factors were some of the contributors to the increase in IPO activity since the calendar year of 1998 (Chabane et al., 2006).

Private equity fund managers should be aware of the general macro and micro-economic environment within which investments are executed as this may influence the success of the intended exit strategy. According to the 2013 National Budget of South Africa, government spending has been reduced by R10.4 billion through spending reprioritization, savings and a reduction on the national contingency reserve. The current account deficit of R -3.3 billion and the simultaneous reduction in the national contingency reserve exposes the South African economy to a greater extent of macroeconomic vulnerability (OECD).

The reduced public expenditure undermines the power of public spending in the fight against income inequality and poverty (Steenekamp, 2013). R 827 billion is planned for spending on state owned entities for the building of public infrastructure. This may address improved governance necessity through state capacity bureaucratic apparatus utilization and fiscal bargaining (Fjeldstad, 2013). However, domination of public infrastructural service by state owned entities may suppress service delivery competition and may reduce small enterprises collective bargaining through increased barriers of entry (OECD). This may be a further indicator of fiscal federalism inefficiency. Just under R 430 billion has been allocated to education, health care, water and electricity, sanitation, legal practice and policing, and transport infrastructure development. R 1.5 billion has been allocated to the Department of Trade and Industry for manufacturing competitiveness enhancement and R 3.3 billion has been allocated to the jobs fund. This seems to address the importance of budget efficiency through a balanced budget approach (Schoeman & Van Heerden, 2009). The significant spending allocation to education may promote public spending contribution efficiency (Hood, Husband, & Yu, 2002) and may raise disposable income through skills and employment matching, increased labour productivity, and therefore increased consumption and investment (Feldstein, 2006).

State- Owned entities will fund further projects worth R 400 billion through their own resources and additional Treasury guarantees. This may add to the sluggish output growth of the economy by preventing the realization of the 2015/16 Debt to GDP ratio of 40 per cent (OECD). The most recent South African economic environment indicators reflect an increase in the public sector wage bill, a decline in public investment, and an overvaluation of the Rand currency in comparison to international currency prices (OECD). Personal income tax relief and adjustments to the medical tax credit and monetary thresholds amount to R 7 billion and R 350 million respectively. Further employment incentives and tax relief to small business corporations have also been considered as tax policy proposals. This may improve revenue generation as per the possible attraction of taxpayers to common interest incentives (Fjeldstad, 2013). However, globalization and regional integration may be the influential reason for more tax relief despite the possible need for increased revenue collection to address the South African fiscal limitations and challenges (Tanzi, 2004).

Despite the regressive nature of VAT and personal income tax, these may be the taxes which are best suited to absorb increment contingencies for more revenue collection (Tanzi, 2004). A revenue shortfall of R 16.3 billion as compared to the 2012 budget was reported in South Africa. This may be an indicator of a perpetual narrow tax base inadequacy (Aaron & Slemrod, 1999). Fuel levies were raised by 23 cents per litre. This may have a negative effect on economic growth through possible negative impact on the taxpaying public as this may result into lower productivity and savings (Schoeman & Van Heerden, 2009). The challenge of tax revenue collections from corporate and individual tax payers is an indication of fluctuating levels of disposal income in the hands of taxpayers. As investors are tax payers, this may have an impact on their investment habits and risk appetite. This may influence the success of private equity exits as the success thereof is contingent on the risk appetite of investors in relation to the applicable exit medium.

As per the NDP of South Africa, the social assistance budget will rise to R 120 billion. This may contribute to the protection of the poor and needy as a possible attempt to empower them with regards to a decent livelihood (OECD). The notion of the “social fiscal contract” may be a possible influential consideration in the allocation of public funds towards the social wage 2013 National Budget component (Fjeldstad, 2013). As the national budget deficit continues to grow, the South African government may need to seek various avenues of revenue generation in order in order to finance the national debt. One of the ways in which this may be done is to consider the increased collection of tax revenues. VAT is levied at a standard rate of 14 per cent on standard rated taxable supplies in South Africa. VAT is an indirect tax on businesses and the rate has been consistent since 1993. Perhaps the South African government should consider the legislation of an increase in the VAT rate as an attempt to collect more tax revenue in order to finance the national budget deficit.

A higher VAT rate would result into higher prices for goods and services as the VAT rate is incorporated into the billable price by businesses. The consumer pays VAT to the VAT vendor trading business which transfers it to SARS in the form of Output VAT. At the point of purchase the VAT vendor business pays VAT to a VAT vendor seller and subsequently claims the VAT paid from SARS in the form of Input VAT. Due to the possibility that a higher VAT rate would translate into higher consumer prices of goods and services, there may be some justification to the possibility of long term inflationary effects on the national economy. However, as VAT is an indirect taxation on goods and services, it may be the most appropriate alternative for taxation increases as opposed to more direct taxes on corporate and personal income. Increases in corporate and personal income tax may result into a general tax base shrinkage as a precipitation of increased non tax compliance, tax evasion and capital flight to other tax jurisdictions (Janský, Prats, & Aid, 2013).

The South African government has attempted to introduce a new tolling system which is referred to as "e-Tolling". The proposed tolling system is an electronic system that bills road users for public road usage. The initiative may partly be seen as a reasonable attempt to collect more revenue from the public in order to finance the national budget. However, the proposed system has been rejected by organizations and movements such as COSATU and OUTA. An increase in the VAT rate may be the best alternative for improved tax revenue collection due to reasonable justifications against the increase of corporate taxation, personal taxation and other indirect taxes such as public road usage related levies. Despite the possible long term inflationary effects of a higher VAT rate, the South African government may have to consider anti-inflation measures and policies such as inflation targeting in order to enable the introduction and application of tax levies which may carry inflationary effects and consequences.

The NDP document which was prepared by the NPC of South Africa states that the success of the NDP as an attempt to promote greater economic development and growth lies in the support that is given to foreign and domestic investment in the South African economy (Manuel, 2011). MNCs are incentivized for economic presence and activity in tax jurisdictions which may be perceived as being more taxation cost friendly. This may be characterized by countries which charge lower tax rates and offer more tax relief considerations on corporate taxable income. Tax havens, which are countries or territories that may charge lower or no rates on certain taxes, attract MNCs with regards to the generation of taxable income. Taxpaying corporations may redirect their taxable profits to more attractive tax jurisdictions by migrating entirely, or by establishing shell subsidiaries in those tax jurisdictions for the specific purpose of taxable income generation for lower tax charge advantages. This phenomenon is widely termed as "profit shifting" in related existing research material (Janský et al., 2013). The related consequence for the South African taxation environment is the possible erosion of the domestic tax base. This may be due to the possibility of reduced tax revenue due to MNC taxable income being generated and therefore being charged in foreign tax jurisdictions such as tax havens. In order to address this challenge, the South African government may have to strengthen tax evasion laws and reduce tax avoidance loopholes. There may be a positive correlation link between "profit shifting" by MNCs and tax evasion due to the transaction information secrecy that some tax havens offer (Janský et al., 2013). There may also be a positive correlation link between “profit shifting” by MNCs and tax avoidance due to the cross-border taxation loopholes that aggressive taxation planning allows (OECD).

Some tax havens attract individuals and MNCs through the transaction information secrecy incentive. This policy is applied to prevent communication and disclosure to countries that may seek to obtain such information for the purpose of taxing world-wide taxable income of the relevant domestic taxpaying entity. The consequence of this may be that SARS may experience difficulty in tracing and identifying foreign generated taxable income of taxpayers for domestic taxation charges. The ‘Global Forum on Transparency and Exchange of Information for Tax Purposes’ has pressurized tax havens into the signing of tax information exchange agreements with non-tax havens for improved transaction information transparency and disclosure. However, even though many tax havens have signed these agreements with significant economically linked territories and countries, the level of transaction information disclosure and transparency has not improved as indicated by existing research material (Bilicka & Fuest, 2012). Therefore the South African government may have to consider the introduction and revision of tax information exchange agreements with related tax havens with the intention of improving information transparency and disclosure. Perhaps hostile measures such as cancellation of such agreements and cross-border economic activity sanctioning should be implemented to address this challenge. However, such hostile measures may alienate South African MNCs and high net worth individuals who seek to take advantage of simultaneous tax residency in South Africa and related tax havens. This may result into further tax base erosion as such tax payers may be provoked into emigration to other tax jurisdictions.

International taxation laws may be similar in design and application in countries across the world. World-wide income taxation is the general application from an international perspective across different countries. Therefore, international taxation systems generally charge the taxable income of individuals and corporations on a source basis over and above a residence basis (Devereux, 2008). However, as globalization enables simpler exchange of information through the internet, global economic activity and global taxable income generation of individuals and corporations is occurring more frequently. This has created what existing research has termed as the “digital economy” (OECD). The international integration of economies may result into increased incidents of double taxation on the same transactions for the same entities due to possible overlaps of similar taxation rights on the same taxable income which is generated by the same taxpaying entity. The South African government may respond to this challenge by creating and updating double taxation agreements with partnering countries in order to prevent unnecessary double taxation overlaps.

The “digital economy” also creates a tax compliance risk challenge due the diminished ability of the current tax compliance infrastructure to effectively assess tax compliance on cross- border multiple digital economic transactions (OECD). The South African government may have to invest in improved cross-border digital economic transaction tax compliance monitoring information technology systems and processes in order to reduce the risk of cross-border non-taxation compliance. The South African government may need to consider various measures such as stricter general anti- avoidance rules, stricter tax evasion laws and restrictions, double taxation agreement revision and creation, and digital international taxation compliance risk assessment infrastructure. These measures should be aimed at mitigating the challenges associated with “profit shifting” induced domestic tax base erosion, taxable income source determination, world-wide taxation compatibility, cross-border taxation rights overlaps, and tax haven information exchange inefficiencies. However, in considering these measures and challenges the South African government should simultaneously be aware of the consequences and effects for South Africa’s economy from a domestic and international perspective.

The available empirical research literature does not sufficiently address the issues around the dominant private equity exit medium in South Africa during different economic cycles. A link between IPO’s, M&A’s and South African private equity exits has not been established through rigorous research methodologies and analysis. Therefore this lack of appropriate and thorough literature serves as a motivator for the purpose of this study in the pursuit of a researched working model for private equity fund managers in the South African environment and other similar emerging markets.

CHAPTER III – METHODOLOGY

3.1 THE DOMINANT PRIVATE EQUITY EXIT MEDIUM IN SOUTH AFRICA

The dominant private equity exit medium in South Africa is measured through the construction of portfolios as per the methodology applied in (Prahl et al., 2011). This methodology was applied as it is the best representation of the intended research purpose as compared to other research methodologies. Portfolio construction reduces the volatility of data and allows for the visual comparison of portfolio performance factors.

3.1.1 PORTFOLIO CONSTRUCTION METHOD

Two portfolios were constructed in order to compare the frequency of IPO and M&A private equity exit mediums in South Africa. The portfolios consisted of private equity exit medium characteristics and were created based on the practiced exit medium types in private equity exit deal structures. Therefore, portfolios which consist of IPO and M&A private equity exits in South Africa between the calendar years of 2004 and 2013 were constructed. The average time period between the initial private equity investment acquisition and exit is 6.82 years under average economic and business circumstances (Kaplan & Strömberg, 2008). Private equity funds normally undergo a 10 year life cycle under the influence of market trends and other relevant influential factors (Sohl, 2003). Therefore, the observation time period for the constructed portfolios was chosen as the 10 year period from the year 2004 to 2013.

To avoid private equity exit medium overlaps, the IPO private equity exit mediums in South Africa were isolated from general M&A private equity exits. This isolation occurred through portfolio construction that sought to separate M&A exit mediums which occur through acquisitions, institutional buy-outs and joint-ventures, from IPO exit mediums.

The portfolios were constructed to represent the relevant private equity exit medium compositions as at 18 October 2004 and the private equity exit medium frequencies by IPO or M&A were tracked until 18 October

2013. The portfolios were reviewed on the 18th of October for each year to ensure that each portfolio was consistent in private equity exit medium composition in comparison to the immediate preceding year of observation. The cumulative annual private equity exit medium frequencies were calculated at the end of each year of observation and were compared to the prior year's cumulative annual frequencies as demonstrated in (Prahl et al., 2011).

To interpret the data, the cumulative annual private equity exit medium frequency values of each portfolio were plotted and compared visually. A frequency value relative graph was incorporated to assist in the interpretation of the portfolio exit medium frequency graphs. This graph was constructed by plotting the IPO private equity exit medium cumulative annual frequencies against the relevant M&A exit frequencies. Therefore, a visual representation of the dominant private equity exit medium in South Africa between IPO and M&A for the time period between the calendar years of 2004 and 2013 was demonstrated in line with Prahl et al. (2011).

The correctness and accuracy of the data was established through independent verification from other sources such as newspaper reports and company web sites in order to deal with duplicate and inaccurate data points (Annamalai & Deshmukh, 2011).

The nature of the analysis, which involved the calculation of the cumulative annual private equity exit medium frequencies, allowed for the results to be visually compared. However, to test the reliability and accuracy of the results, the difference in the private equity exit medium cumulative annual frequencies of the portfolios was tested by using a Mann-Whitney U-test (McKnight & Najab, 2010). This non-parametric test was performed as the data was tested for normality and was confirmed to not be normally distributed (Rosner & Grove, 1999).

3.2 ACQUISITION FINANCE AT EXIT AND EXIT FREQUENCY COMPARISONS

To investigate the ancillary research questions, the acquisition finance types at the point of private equity exit were plotted graphically and inspected visually. The private equity exit frequencies of South Africa and 123 other countries and foreign regions were visually plotted for international comparison. The observation time period and the data verification procedures were within the parameters of the main research question for research data and analysis consistency in line with Prahl et al. (2011).

3.3 DATA

3.3.1 SOURCES OF DATA

Data was sourced from the Zephyr database, which is a specialist international M&A, IPO and private equity database. The database provides information extractions in number processor format (Microsoft Excel format: .xls).

3.3.2 POPULATION AND STUDY SAMPLE

In order to investigate the main research question, all South African private equity exits which were submitted to the Zephyr database constituted the population and sample from which the private equity exit mediums were extracted. The IPO and M&A private equity exit medium frequencies were extracted from the population through the search and filtering functionalities of the Zephyr database. This assisted in the stratification of the exit medium frequencies, which constituted the portfolio constructions. The nature of the relevant exits was those which were announced, completed, pending, or unconditional as specified by the Zephyr database.

The investigation of the ancillary research question for acquisition finance types at the point of private equity exit in South Africa was within the parameters of the population and sample for the main research question for research data and analysis consistency as in (Prahl et al., 2011). The observed types of acquisition finance were stratified into the categories specified by the Zephyr database.

The investigation of the ancillary research question for the international comparison of the South African private equity exit frequencies considered all international private equity exits submitted to the Zephyr database as the relevant population and sample. The observed international private equity exit frequencies were stratified into country and regional categories specified by the Zephyr database.

3.3.3 DATA MANAGEMENT AND ANALYSIS

Data was collected and analyzed using the Microsoft Excel (2010) number processing software. The data analysis required for investigating the main research question involved the construction of portfolios; annual review of portfolios; calculation of the cumulative annual private equity IPO and M&A exit medium frequencies; and graphical representations of the cumulative annual private equity IPO and M&A exit medium frequencies were generated.

The data analysis required for investigating the ancillary research questions involved the graphical representations of acquisition finance types at the point of private equity exit in South Africa and the international comparison of the South African private equity exit frequencies.

ASSUMPTIONS, LIMITATIONS AND DELIMITATIONS

Assumptions

The data collected from the Zephyr database is complete, accurate and up to date.

Limitations

The database information used may contain processing and capturing inaccuracies which may not be detected.

Delimitations

This study did not seek to investigate other specific private equity exit mediums such as write offs.

This study did not seek to establish the accuracy of the database populated information.

CHAPTER IV – RESULTS

The data presented in **Table 1** below represents the GDP growth rates of several African countries including South Africa. The GDP growth rate is used as a basic indicator of the macro-economic performance of a country on an annual basis. This is relevant for the investment and exit strategies of private equity managers, acting as a surrogate for the economic environment within which investment value is managed for private equity fund capital contributors, which is essential for the timing, nature and extent of private equity fund exit strategies. An improvement in the macro-economic performance of a country, is a reflection of an increase in disposable income and spending by personal and institutional investors. Therefore, during times of more favorable economic climate, private equity fund managers may consider exit mediums which will seek to attract investors in the most efficient manner in order to realize private equity investment value. As more disposable income becomes available in the context of more favorable macro-economic growth indicators, investors are more likely to seek investment opportunities through easily accessible and well established public investment platforms such as public securities exchanges. Therefore, private equity fund managers may need to consider the IPO exit medium during such economic climates in order to realize value as an IPO seeks to attract investors who readily commit their disposable income for investment purposes.

Conversely, unfavorable macro-economic climates, indicated by a decline in GDP growth rates, may result in less investment through public investment platforms such as public securities exchanges due to a decline in disposable income in the hands of investors. Investors with sufficient disposable income for investment purposes, may seek alternative investment platforms during unfavorable macro-economic climate in order to maximize their return on investment. Therefore, private equity fund managers may need to consider the M&A exit medium which seeks to attract investors who are more inclined to commit their disposable income through non-public investment platforms such as public securities exchanges.

Table 1 (Source: Zephyr database)

Real GDP Growth Rates (2004-2013)										
Year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Algeria	5.2	5.1	2.0	3.0	2.4	2.4	3.3	2.4	2.5	3.2
Angola	10.2	20.9	19.0	23.2	13.8	2.4	3.4	3.9	7.9	8.2
Benin	3.1	2.9	3.8	4.6	5.0	2.7	2.6	3.5	3.6	4.1
Botswana	2.6	4.8	8.3	8.9	3.7	-7.9	8.1	8.0	5.8	5.6
Burkina Faso	4.5	8.7	6.3	4.1	5.8	3.0	8.4	4.4	8.0	6.7
Burundi	4.8	0.9	5.4	3.5	4.9	3.8	4.8	4.2	4.3	4.6
Cameroon	3.7	2.3	3.2	3.3	2.9	1.9	3.3	4.1	4.9	5.0
Cape Verde	4.3	6.5	10.1	8.6	6.7	-1.3	1.5	2.1	2.4	4.3
Central Afr. Rep.	2.8	2.0	3.8	3.7	2.0	1.7	3.3	3.1	3.1	3.2
Chad	34.3	7.9	2.7	8.4	3.4	4.1	14.0	1.6	7.2	7.4
Comoros	1.9	2.8	2.6	0.8	0.6	1.1	2.0	2.6	2.7	3.2
Congo	3.7	7.6	6.2	-1.6	5.6	7.5	8.8	3.4	4.9	5.1
Congo Dem. Rep.	6.6	7.8	5.6	6.3	6.2	2.8	7.2	6.9	7.2	8.2
Côte d'Ivoire	1.6	1.8	0.7	1.6	2.3	3.8	2.4	-4.7	8.6	8.9
Djibouti	3.0	3.2	4.8	5.1	5.8	5.0	3.5	3.5	4.5	5.0
Egypt *	4.1	4.5	6.8	7.1	7.3	4.9	4.8	1.8	2.2	2.0
Equatorial Guinea	38.0	9.7	1.3	21.4	10.7	4.6	-0.5	7.7	5.5	4.9
Eritrea	1.5	2.6	-1.0	1.4	-9.8	3.9	2.2	8.7	5.5	7.0
Ethiopia*	13.6	11.8	10.8	11.5	10.8	8.7	12.7	11.2	6.9	6.6
Gabon	1.4	3.0	1.2	4.8	5.3	-2.7	6.9	7.0	5.6	4.6
Gambia	7.0	-0.9	1.1	3.6	5.7	6.4	6.5	-4.4	1.0	4.3
Ghana	5.6	5.9	6.4	6.5	8.4	4.0	8.0	14.4	7.1	8.0

Real GDP Growth Rates (2004-2013)										
Year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Guinea	2.3	3.0	2.5	1.8	4.9	-0.3	1.9	3.9	4.2	4.8
Guinea-Bissau	2.2	4.3	2.3	3.2	3.2	3.4	4.5	5.3	-1.5	4.2
Kenya	5.1	5.9	6.3	7.0	1.5	2.7	5.8	4.4	4.2	4.5
Lesotho	2.3	2.7	4.3	4.7	5.7	3.6	7.9	3.7	3.8	3.9
Liberia	4.1	5.9	9.1	13.0	6.2	5.4	6.1	8.2	8.9	7.7
Libya	4.5	11.9	6.5	6.4	2.4	-1.4	3.7	-59.7	95.5	15.0
Madagascar	5.3	4.6	5.0	6.2	7.1	-4.1	0.4	1.6	1.9	3.0
Malawi	5.4	2.6	7.7	5.5	8.6	7.6	6.5	4.3	2.0	5.5
Mali	2.3	6.1	5.3	4.3	5.0	4.5	5.8	2.7	-1.5	5.4
Mauritania	5.2	5.4	11.4	1.0	3.5	-1.2	5.1	3.9	6.0	6.4
Mauritius	5.8	1.2	3.9	5.4	5.5	3.1	4.2	3.8	3.3	3.8
Morocco	4.8	2.8	7.8	2.7	5.6	4.9	3.6	5.0	3.2	4.6
Mozambique	7.9	8.4	8.7	7.3	6.8	6.3	6.8	7.3	7.4	8.5
Namibia	12.3	2.5	7.1	5.5	3.4	-0.4	6.6	4.9	4.7	4.2
Niger	-0.8	7.2	5.8	3.4	9.6	-0.7	8.2	2.1	13.1	5.5
Nigeria	10.5	6.5	6.0	6.4	6.0	7.0	8.0	7.4	6.6	6.7
Rwanda	7.4	9.4	9.2	7.6	11.2	6.2	7.2	8.3	7.7	7.1
São Tomé & Príncipe	4.5	1.6	12.6	2.0	9.1	4.0	4.5	4.9	4.0	5.2
Senegal	5.9	5.6	2.5	4.9	3.7	2.4	4.3	2.1	3.7	4.3
Seychelles	-2.9	9.0	9.4	10.1	-1.9	-0.2	5.6	5.0	2.8	3.2
Sierra Leone	7.4	7.3	7.4	6.4	5.5	3.2	5.3	6.0	16.7	7.2
Somalia	…	…	…	…	…	…	…	…	…	…
South Africa	4.6	5.3	5.6	5.5	3.6	-1.5	3.1	3.5	2.5	2.8
South Sudan	…	…	…	…	…	…	…	…	…	…

Real GDP Growth Rates (2004-2013)										
Year	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Sudan	6.5	3.7	11.9	12.2	2.3	4.6	2.2	2.7	-0.6	2.2
Swaziland	2.9	2.5	3.3	3.5	2.4	1.2	1.9	0.7	-0.3	0.7
Tanzania	7.8	7.4	6.7	7.1	7.4	6.0	7.0	6.4	6.4	6.9
Togo	2.5	1.2	3.9	2.1	2.4	3.4	4.0	4.9	5.0	5.3
Tunisia	6.0	4.0	5.7	6.3	4.5	3.1	3.1	-1.9	3.3	3.4
Uganda	5.8	10.0	7.1	8.1	10.4	4.1	6.2	5.9	4.4	4.9
Zambia	5.4	5.3	6.2	6.2	5.7	6.4	7.6	6.8	7.3	7.5
Zimbabwe	-6.9	-2.2	-3.5	-3.7	-17.7	6.3	9.6	10.6	4.4	5.0

The real GPD growth rate per table 1 for South Africa appears to have fluctuated in opposite directions at multiple instances during the 2004 to 2013 period. This is due to several factors which appear to influence the macro-economic environment of South Africa on an ongoing basis.

Commerce in South Africa is largely driven by the financial services and mining industries. These industries attract substantial amounts of foreign direct investment due to the high returns on investment that have been realized by investors. Therefore adverse events within the commercial environment of South Africa may have an adverse effect on the on the macro-economic environment of South Africa as foreign investors are sensitive to such events which may adversely affect their return on investment(Asiedu, 2006).

Labor movements in South Africa are bodies which seek to uphold the rights of workers. On a regular basis, labor strike action as instituted by the Constitution of South Africa, is exercised by labor movements in order to dispute general wage conditions such as wage increases, employment benefits, and working environment conditions(Hirschsohn, 1998). Labor is an essential component of commerce in South Africa, as businesses rely on employees to drive operations and generate profits. Therefore labor dispute events may have an adverse effect on the on the macro-economic environment of South Africa as foreign investors are sensitive to such events which may adversely affect their return on investment(Asiedu, 2006).

Political influences include government policies which consistently change in order to promote new growth in a political environment which is faced with various challenges with regards to general administration of the state and its resources. Government policy implementation is similarly consistently revised as improvements are made on prior processes and procedures in order to realize more efficiency in public service delivery. However, this may present possible political events which are unpredictable to investors. Such events are relevant to the decisions of investors as the political environment of South Africa influences commerce through the general macro and micro-economic environment. Therefore adverse events within the political environment of South Africa may have an adverse effect on the on the macro-economic environment of South Africa as foreign investors are sensitive to such events which may adversely affect their return on investment(Asiedu, 2006).

Results: Main research question

What is the dominant private equity exit medium in South Africa?

Figure 1

As illustrated in **Figure 1**, there were a total of 508 successful private equity IPO exits in South Africa in the period 2004 to 2013. In 2004, 67 PE IPO exits were registered, as compared to 82 PE IPO exits in 2005. This was a sharp increase which may have been attributable to several economic factors(Yartey, 2008). As per **Table 1**, the real GDP growth rate was 5.3 in 2005 as compared to 4.6 in 2004. This confirms an increase in successful private equity IPO exits during a more favorable general economic environment during 2005. In 2006 the number of PE IPO exits decreased to 78 as compared to 82 in 2005. The real GDP growth rate was 5.6 in 2006 as compared to 5.3 in 2005. This may confirm a decrease in successful private equity IPO exits during a more favorable economic environment during 2006. However, this may be due to the fundamental analysis of investors as a decline in GDP growth during the 2007 may have been predicted on the basis of historic general economic events which were expected to adversely influence the future performance of publicly traded securities. In 2007 the number of PE IPO exits decreased to 58 as compared to 78 in 2006. The real GDP growth rate was 5.5 in 2007 as compared to 5.6 in 2006. This confirms a decrease in successful private equity IPO exits during a less favorable economic environment during 2007. This also confirms the rationale for the trend analysis of events in 2006. In 2008 the number of PE IPO exits decreased to 13 as compared to 58 in 2007. The real GDP growth rate was 3.6 in 2008 as compared to 5.5 in 2007. This confirms a decrease in successful private equity IPO exits during a less favorable economic environment during 2008. In 2009 the number of PE IPO exits increased to 18 as compared to 13 in 2008. The real GDP growth rate was -1.5 in 2009 as compared to 3.6 in 2008. This may confirm an increase in successful private equity IPO exits during a less favorable economic environment during 2009. However, this may be due to the fundamental analysis of investors as an improvement in GDP growth during 2010 may have been predicted on the basis of historic general economic events which were expected to favorably influence the future performance of publicly traded securities. A global economic recession also reached its peak during 2009 which may have contributed to a decline in general commercial activity. In 2010 the number of PE IPO exits increased to 46 as compared to 18 in 2009. The real GDP growth rate was 3.1 in 2010 as compared to -1.5 in 2009. This confirms an increase in successful private equity IPO exits during a more favorable general economic environment during 2010. This also confirms the rationale for the trend analysis of events in 2009. In 2011 the number of PE IPO exits increased to 50 as compared to 46 in 2010. The real GDP growth rate was 3.5 in 2011 as compared to 3.1 in 2010. This confirms an increase in successful private equity IPO exits during a more favorable general economic environment during 2011. In 2012 the number of PE IPO exits decreased to 48 as compared to 50 in 2011. The real GDP growth rate was 2.5 in 2012 as compared to 3.5 in 2011. This confirms a decrease in successful private equity IPO exits during a less favorable economic environment during 2012. In 2013 the number of PE IPO exits decreased to 42 as compared to 48 in 2012. The real GDP growth rate was 2.8 in 2013 as compared to 2.5 in 2012. This may confirm a decrease in successful private equity IPO exits during a more favorable economic environment during 2013. However, this may be due to the fundamental analysis of investors as a decline in GDP growth during the 2014 may have been predicted on the basis of historic general economic events which were expected to adversely influence the future performance of publicly traded securities. Therefore as per the analysis of private equity IPO exits for the period 2004 to 2013 within the South African context, there was a clear relationship between PE IPO exits and the favorable general economic climate of the years within which the exits were executed. It essential for private equity fund managers in South Africa to take such general economic indicators into consideration in the selection of exit mediums. It is evident from the historical data obtained, that private equity IPO exit mediums are more successful during favorable economic climate as compared to less favorable economic climate.

Table 2 (Source: Zephyr database)

Time period : on and after 18/10/2003 (announced)			
Deal type : IPO			
Current deal status : Announced, Completed, Pending, Unconditional			
Sub-deal type : Exit Country : South Africa (ZA)			
Figures refer to : Aggregate deal value (mil USD)			
Deal yearly value (Announced date)	**Number of deals**	**Number of deals with known values**	**Aggregate deal value (mil USD)**
2013	42	41	15 682
2012	48	46	12 230
2011	50	49	19 101
2010	46	46	15 056
2009	18	18	5 379
2008	13	12	4 350
2007	58	57	21 866
2006	78	77	28 785
2005	82	80	18 840
2004	67	65	14 510
Total	508	497	156 945

Figure 2

As illustrated in **Figure 2**, there were a total of 76 successful private equity M&A exits in South Africa in the period 2004 to 2013. In 2004 and 2005, 10 PE M&A exits were registered. This was a consistent occurrence which may have been attributable to several deal structuring factors which were at arm's length as opposed to general economic factors. M&A's require direct negotiation and bargaining with investors as prospective business acquirers. Therefore, the success of private equity M&A exit mediums may not be directly or indirectly influenced by a favorable general economic environment as may be indicated by economic indicators such as annual real GDP growth rates. Instead, PE M&A exit mediums may be more successful during unfavorable general economic climate's as investors with disposable income avoid publicly traded securities by IPO's during economic decline as demonstrated in the data analysis of PE IPO exit mediums from 2004 to 2013. As per **Table 1**, the real GDP growth rate was 5.3 in 2005 as compared to 4.6 in 2004. This seems to confirm no direct or indirect influence of a more favorable general economic environment on the success of PE M&A exit mediums during 2005. However, this may be due to deal structuring factors which were at arm's length of the relevant private equity fund managers. In 2006 the number of PE M&A exits decreased to 8 as compared to 10 in 2005. The real GDP growth rate was 5.6 in 2006 as compared to 5.3 in 2005. This confirms a decrease in successful private equity M&A exits despite a more favorable economic environment during 2006. This also confirms the rationale for the trend analysis of events in 2005. In 2007 the number of PE M&A exits increased to 15 as compared to 8 in 2006. The real GDP growth rate was 5.5 in 2007 as compared to 5.6 in 2006. This confirms an increase in successful private equity M&A exits during a less favorable economic environment during 2007. In 2008 the number of PE M&A exits decreased to 9 as compared to 15 in 2007. The real GDP growth rate was 3.6 in 2008 as compared to 5.5 in 2007. This seems to confirm a decrease in successful private equity M&A exits during a less favorable economic environment during 2008. However, this may be due to unfavorable deal structuring factors which were at arm's length of private equity fund managers and prospective business acquirers who may have responded adversely to M&A conditions. A global economic recession began to take root during 2008 which may have contributed to a decline in general commercial activity. In 2009 the number of PE M&A exits decreased to 5 as compared to 9 in 2008. The real GDP growth rate was -1.5 in 2009 as compared to 3.6 in 2008. This may confirm a decrease in successful private equity M&A exits during a less favorable economic environment during 2009. However, this may be due to unfavorable deal structuring factors which were at arm's length of private equity fund managers and prospective business acquirers who may have responded adversely to M&A conditions. A global economic recession also reached its peak during 2009 which may have contributed to a decline in general commercial activity. In 2010 the number of PE M&A exits increased to 10 as compared to 5 in 2009. The real GDP growth rate was 3.1 in 2010 as compared to -1.5 in 2009. This confirms an increase in successful private equity M&A exits during a more favorable general economic environment during 2010. However, this may due to economic global economic recovery post the 2008 and 2009 global economic recession. This also confirms the rationale for the trend analysis of events in 2009. In 2011 the number of PE M&A exits decreased to 3 as compared to 10 in 2010. The real GDP growth rate was 3.5 in 2011 as compared to 3.1 in 2010. This confirms a decrease in successful private equity M&A exits during a more favorable general economic environment during 2011. In 2012 the number of PE M&A exits increased to 5 as compared to 3 in 2011. The real GDP growth rate was 2.5 in 2012 as compared to 3.5 in 2011. This confirms a decrease in successful private equity M&A exits during a less favorable economic environment during 2012. In 2013 the number of PE M&A exits decreased to 3 as compared to 5 in 2012. The real GDP growth rate was 2.8 in 2013 as compared to 2.5 in 2012. This may confirm a decrease in successful private equity M&A exits during a more favorable economic environment during 2013. However, this may be due to unfavorable deal structuring factors which were at arm's length of private equity fund managers and prospective business acquirers who may have responded adversely to M&A conditions. Therefore as per the analysis of private equity M&A exits for the period 2004 to 2013 within the South African context, there was a clear relationship between PE M&A exits and the less favorable general economic climate of the years within which the exits were executed. It essential for private equity fund managers in South Africa to take such general economic indicators into consideration in the selection of exit mediums which are to be executed. It is evident from the historical data obtained, that private equity M&A exit mediums are more successful during less favorable economic climates as compared to more favorable economic climates.

Table 3 (Source: Zephyr database)

Time period : on and after 18/10/2003 (announced)			
Deal type: Acquisition, Institutional buy-out, Joint-venture...			
Current deal status : Announced, Completed, Pending, Unconditional			
Sub-deal type : Exit			
Country : South Africa (ZA)			
Figures refer to : Aggregate deal value (mil USD)			
Deal yearly value (Announced date)	**Number of deals**	**Number of deals with known values**	**Aggregate deal value (mil USD)**
2013	3	2	21
2012	5	0	0
2011	3	3	523
2010	8	6	366
2009	5	2	260
2008	9	6	417
2007	15	13	685
2006	8	4	75
2005	10	4	980
2004	10	6	698

As per **Figure 1**, there was a total of 508 successful private equity IPO exits in South Africa in the period 2004 to 2013. As per **Figure 2**, there was a total of 76 successful private equity M&A exits in South Africa in the period 2004 to 2013. Therefore, on a totality comparison, the dominant private equity exit medium in South Africa between IPO and M&A in the period 2004 to 2013 was IPO as compared to M&A. During 2004, 13 successful PE IPO exits were registered as compared to 3 PE M&A exits. Therefore PE IPO exit mediums were more dominant than PE M&A exit mediums during 2004. In 2005, 18 successful PE IPO exits were registered as compared to 3 PE M&A exits. Therefore PE IPO exit mediums were more dominant than PE M&A exit mediums during 2005. During 2006, 42 successful PE IPO exits were registered as compared to 5 PE M&A exits. Therefore PE IPO exit mediums were more dominant than PE M&A exit mediums during 2004. In 2007, 46 successful PE IPO exits were registered as compared to 5 PE M&A exits. Therefore PE IPO exit mediums were more dominant than PE M&A exit mediums during 2007. In 2008, 48 successful PE IPO exits were registered as compared to 8 PE M&A exits. Therefore PE IPO exit mediums were more dominant than PE M&A exit mediums during 2008. In 2009, 50 successful PE IPO exits were registered as compared to 8 PE M&A exits. Therefore PE IPO exit mediums were more dominant than PE M&A exit mediums during 2009. During 2010, 58 successful PE IPO exits were registered as compared to 9 PE M&A exits. Therefore PE IPO exit mediums were more dominant than PE M&A exit mediums during 2010. During 2011, 67 successful PE IPO exits were registered as compared to 10 PE M&A exits. Therefore PE IPO exit mediums were more dominant than PE M&A exit mediums during 2011. In 2012, 78 successful PE IPO exits were registered as compared to 10 PE M&A exits. Therefore PE IPO exit mediums were more dominant than PE M&A exit mediums during 2012. During 2013, 82 successful PE IPO exits were registered as compared to 15 PE M&A exits. Therefore PE IPO exit mediums were more dominant than PE M&A exit mediums during 2004.

Therefore, on a cumulative and annual comparison of PE IPO and PE M&A exit mediums for the 2004 to 2013 period, it is evident that the dominant private equity exit medium is IPO as compared to M&A. In addition, as per the relationship between the exit mediums and general economic climates, it is evident that PE IPO exit mediums are more successful during favorable economic conditions as indicated by general economic indicators such as the real GDP growth rate. It is also evident that PE M&A exit mediums are more successful during less favorable economic conditions as indicated by general economic indicators such as the real GDP growth rate. Private equity fund managers should take a combination of these factors into consideration in the selection of a private equity exit medium that is to be executed in order to realize maximum value from the relevant private equity investment.

Statistical reliability (Mann-Whitney U-Test)

The purpose of this statistical test is to determine if there is a significant difference between the IPO exits and the M&A exits i.e. whether or not they have the same distribution. This statistical test is appropriate as the data has the following characteristics: 1.The IPO exits are independent of the M&A exits; 2.The data is of an ordinal nature (this has been achieved by ranking the data according to magnitude). The relevance of the statistical test is to confirm whether the IPO and M&A exist data populations are mutually exclusive in order to prevent overlapping interpretations of the results. The statistical analysis performed will demonstrate whether the data is reliable for the research objective(Laerd, 2014).

Hypothesis:

IPO exits = M&A exits

Alternative Hypothesis:

IPO exits ≠ M&A exits

Data:

Year	IPO Exits	Rank IPO	M&A Exits	Rank M&A
2004	13	10	3	1.5
2005	18	12	3	1.5
2006	42	13	5	3.5
2007	46	14	5	3.5
2008	48	15	8	5.5
2009	50	16	8	5.5
2010	58	17	9	7
2011	67	18	10	8.5
2012	78	19	10	8.5
2013	82	20	15	11

The U statistic is calculated as follows:

$$U = n_1 n_2 + \frac{n_1(n_1+1)}{2} - R_1$$

Where n_1 is the number of IPO exits, n_2 is the number of M&A exits and R_1 is the sum of the ranks of the IPO exits.

[Note that n_1 can represent IPO or M&A exits in the calculation at random discretion. Therefore n_1 was chosen to represent IPO exits and n_2 was chosen to represent M&A exits for calculation purposes as per the formula above.]

Results (in terms of the IPO exit ranks):

	IPO Exits	***M&A Exits***
Sum of ranks	154	56
Mean of ranks	15.4	5.6
Expected sum of ranks	105	105
Expected mean of ranks	10.5	10.5
U-value	1	99
Expected U-value	50	50

IPO and M&A Exits Combined
Sum of ranks: 210
Mean of ranks: 10.5
Standard Deviation: 13.2288

Analysis (for U statistic calculated in terms of IPO exit ranks):

For a two sided hypothesis, the critical value at a 5% significance level is 23. A U-value of 1 is less than 23 and therefore suggests that there is a significant difference between the IPO and M&A exits. Therefore, the statistical test confirmed that the IPO and M&A exits are mutually exclusive and would not result into overlapping interpretations of results.

As per the statistical reliability test results (Mann-Whitney U-Test), the data analyzed was established as statistically reliable within the parameters of the test criteria and the population dynamics (Rosner & Grove, 1999).

Results: Ancillary research questions

The purpose of the ancillary research is to add complimentary value to the results of the main research. Private equity fund managers may derive value from ancillary factors which may add basic awareness to private equity investment decisions. The ancillary research is demonstrated below.

1. What is the dominant type of acquisition finance at the point of private equity exit?

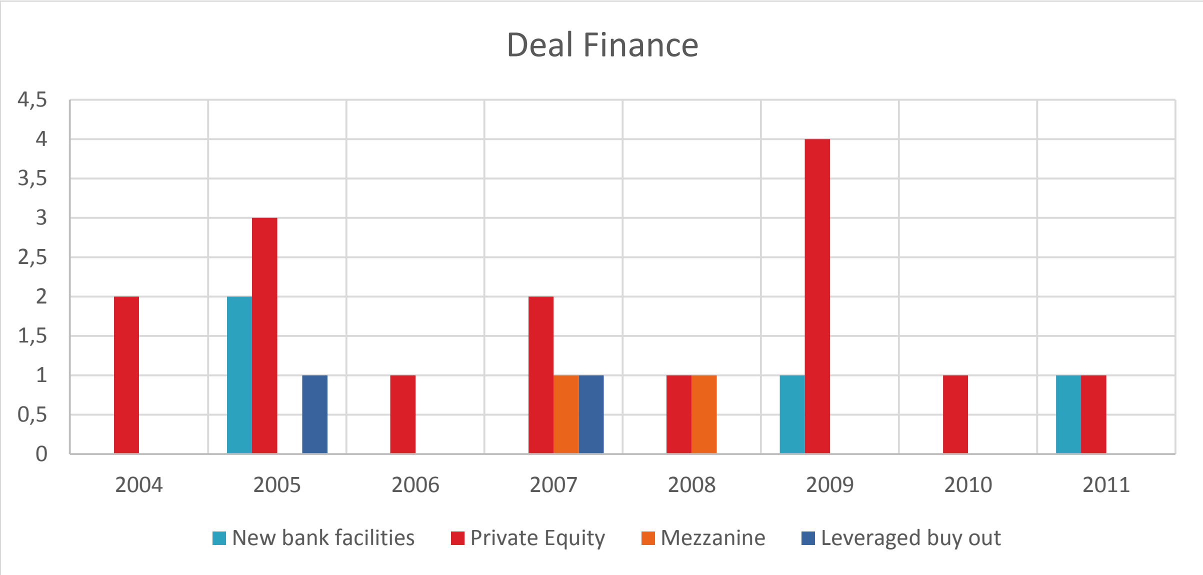
At the point of private equity exit from an investment, private equity fund managers attempt to attract investors as prospective investment acquirers through exit mediums such as IPO's and M&A's. The prospective acquirers of the investment make use of financing resources which differ in nature as a function of the nature of the investment and the needs of the investment acquirers. Some of the resources that may be applied by investment acquirers include new bank facilities, private equity, mezzanine finance, leveraged buy outs, and other hybrid forms of financing resources.

New bank facilities include a line of credit for which a commitment fee is paid in order to use the available funds at any given time. The lending institution guarantees the maximum amount of funds that can be lent and levies normal interest rate charges on the amount of funds which is used by the borrowing party on a pro rata basis.

Mezzanine finance is a combination of debt and equity capital resources. Its structure includes subordinated debt and a form of profit share or equity in the relevant investment. Mezzanine debt, is similar to other debt instruments, but its structure places less emphasis on debt principal repayments and asset securitisation. Due to the reduced emphasis on debt principal repayment and asset securitisation, a higher risk of return is created for the lender of the relevant debt. Therefore the lender levies a low interest rate over the repayment term, and demands a highly inflated principal payment at maturity. A high profit share is also demanded by the mezzanine financier in the debt lender capacity, in order to compensate the related higher risk of return as a function of the mezzanine finance structure. The amount of mezzanine finance is normally determined on the basis of the valuation of the investment at the point of acquisition. Mezzanine finance allows the investor to realise value from the equity portion of the finance structure at a future date on the basis of a formula which is determined at the inception of the investment acquisition.

A leveraged buyout is a method of acquisition finance through which an investor acquires an investment through pure debt finance which is secured by the prospective investment's assets. The investor assesses the future cash generation ability of the investor to establish whether sufficient cash will be generated to settle the principal and interest payments of the debt finance. Investors usually source such debt from banking institutions which offer pure lending facilities. However, investors may issue bond securities on the public securities market. Due to the pure debt composition of leveraged buyouts, related issued bond securities usually do not meet high investment grades.

Figure 4

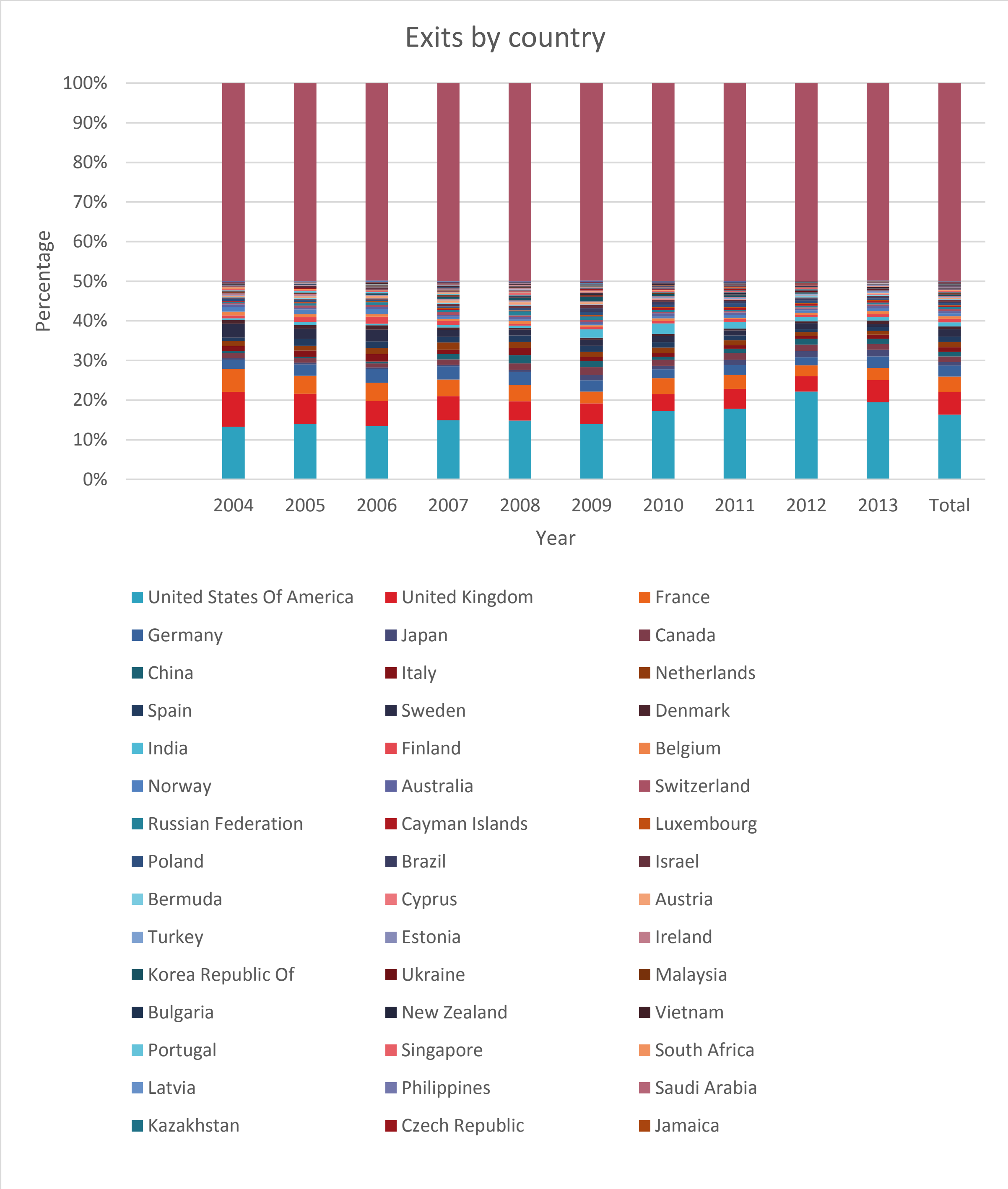


As per **Figure 4**, 2 acquisitions on exit were financed through private equity in 2004 and no other sources of finance within the isolated group of data were registered. Therefore, private equity was the dominant acquisition finance in 2004. In 2005, 2 acquisitions were financed by new bank facilities, 3 acquisitions were financed by private equity, and 1 acquisition was financed by a leveraged buyout. Therefore, private equity was the dominant acquisition finance in 2005. In 2006, 1 acquisition was financed through private equity and no other sources of finance within the isolated group of data were registered. Therefore, private equity was the dominant acquisition finance in 2006. In 2007, 2 acquisitions were financed by private equity, 1 acquisition was financed by mezzanine finance, and 1 acquisition was financed by a leveraged buyout. Therefore, private equity was the dominant acquisition finance in 2007. In 2008, 1 acquisition was financed by private equity, and 1 acquisition was financed by mezzanine finance. Therefore, no dominant acquisition finance source was registered in 2008. In 2009, 1 acquisition was financed by new bank facilities, and 4 acquisitions were financed by private equity. Therefore, private equity was the dominant acquisition finance in 2009. In 2010, 1 acquisition was financed through private equity and no other sources of finance within the isolated group of data were registered. Therefore, private equity was the dominant acquisition finance in 2010. In 2011, 1 acquisition was financed by new bank facilities, and 1 acquisition was financed by private equity. Therefore, no dominant acquisition finance source was registered in 2011.

Therefore on a cumulative and annual basis as per the analysis of the data obtained, the dominant type of acquisition finance at the point of private equity exit in South Africa for the period 2004 to 2011, was private equity. This may imply that certain investments are particularly attractive to private equity investors and are therefore refinanced through private equity by subsequent acquirers.

2. How many private equity exits have been executed in South Africa in comparison to other countries for the period 2004 to 2013?

Figure 5



As per **Figure 5**, the cumulative private equity exits from 2004 to 2013 which have been successfully executed in South Africa as compared to the all other regions in the world, is relatively negligible at 0.4% of total international activity. This activity is greatly exceeded by 33% in the USA for the same time period. In 2004, the proportion of exits in South Africa was 1% of the international total as compared to 27% in the USA. In 2005, the proportion of exits in South Africa was 1% of the international total as compared to 28% in the USA. In 2006, the proportion of exits in South Africa was 0.4% of the international total as compared to 27% in the USA. In 2007, the proportion of exits in South Africa was 1% of the international total as compared to 30% in the USA. In 2008, the proportion of exits in South Africa was 1% of the international total as compared to 30% in the USA. In 2009, the proportion of exits in South Africa was 0.4% of the international total as compared to 28% in the USA. In 2010, the proportion of exits in South Africa was 0.4% of the international total as compared to 35% in the USA. In 2011, the proportion of exits in South Africa was 0.2% of the international total as compared to 36% in the USA. In 2012, the proportion of exits in South Africa was 0.3% of the international total as compared to 44% in the USA. In 2013, the proportion of exits in South Africa was 0.2% of the international total as compared to 39% in the USA.

Table 5 (Source: Zephyr database)

Private equity exits by country
(Includes all mediums of exits)

Figures refer to : Number of deals

Country (target)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
United States Of America	398	558	556	699	526	315	635	772	1 026	619	6 193
United Kingdom	262	304	265	284	173	117	157	219	180	183	2 181
France	172	181	187	196	147	68	146	153	127	95	1 491
Germany	71	111	143	158	119	64	82	107	93	92	1 056
Japan	11	19	17	18	17	32	32	60	74	53	333
Canada	37	47	40	64	56	42	58	70	74	49	542
China	20	12	22	63	76	35	27	51	68	40	416
Italy	35	62	77	51	64	26	35	38	31	32	459
Netherlands	38	50	64	86	53	27	48	51	48	31	503
Spain	25	66	68	67	58	35	51	54	34	30	501
Sweden	105	106	122	78	52	34	57	54	69	27	723
Denmark	28	35	46	30	18	11	20	23	23	27	266
India	12	30	16	31	19	48	97	71	46	27	398
Finland	24	48	73	48	15	12	21	33	27	24	334
Belgium	27	31	26	25	29	11	26	13	27	24	246
Norway	35	47	54	25	12	8	17	30	29	23	283
Australia	20	20	20	22	20	10	31	27	19	16	207
Switzerland	10	21	23	35	15	13	12	17	14	16	179
Russian Federation	11	21	28	26	37	19	17	12	19	14	207
Cayman Islands	3	9	4	8	5	3	19	21	21	12	106
Luxembourg	3	6	7	12	3	6	9	9	11	11	77
Poland	13	18	12	16	17	17	21	42	27	11	194
Brazil	4	5	5	6	6	21	27	22	25	10	132
Israel	9	8	11	26	18	19	15	15	14	10	145
Bermuda	1	11	4	13	11	3	4	5	16	9	77
Cyprus	0	1	2	5	3	2	3	2	0	9	27
Austria	12	14	23	23	18	11	9	5	6	7	129
Turkey	0	2	1	5	4	0	8	9	12	7	48
Estonia	3	6	2	4	3	1	4	3	4	6	36
Ireland	14	12	6	10	11	3	8	10	5	6	86
Korea Republic Of	4	5	6	27	26	27	20	18	17	6	157
Ukraine	2	2	1	7	3	7	3	6	11	5	47
Malaysia	8	3	2	7	1	2	6	1	5	4	40
Bulgaria	0	3	5	4	4	2	3	5	2	4	33
New Zealand	4	3	4	2	6	4	2	12	7	4	48
Vietnam	0	0	0	0	2	6	4	6	7	4	29
Portugal	5	16	11	7	8	3	3	6	3	3	65
Singapore	12	9	10	6	13	5	10	7	13	3	96
South Africa	11	11	8	16	9	5	8	4	6	3	81
Latvia	0	1	2	3	2	0	1	2	1	2	14

Country (target)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Philippines	3	1	1	7	1	0	1	0	2	2	19
Saudi Arabia	1	0	0	0	3	1	1	0	0	2	8
Kazakhstan	0	0	0	1	0	0	0	4	3	2	10
Czech Republic	2	13	9	10	4	10	9	12	2	2	74
Jamaica	0	0	0	1	0	0	0	0	0	2	3
United Arab Emirates	0	1	1	3	4	1	2	4	4	2	22
Argentina	0	6	3	6	0	2	5	4	4	2	34
Hungary	4	10	5	5	4	3	3	3	1	2	40
Morocco	2	0	0	0	1	0	1	0	0	1	5
Cambodia	0	0	0	0	0	0	0	0	0	1	1
Namibia	0	0	0	0	0	0	0	0	0	1	1
Georgia	0	0	1	0	5	0	1	0	3	1	11
Slovakia	0	3	4	1	2	2	0	2	1	1	17
Greece	1	2	0	5	8	0	1	1	2	1	21
Uzbekistan	0	0	1	0	0	0	0	0	1	1	3
Uganda	0	0	0	0	1	0	0	0	1	1	3
Virgin Islands (British)	0	0	0	0	0	1	5	9	5	1	21
Guam	0	0	0	0	0	0	0	0	0	1	1
Colombia	2	1	2	4	0	1	4	5	1	1	21
Chile	1	2	4	3	1	1	5	8	6	1	34
Croatia	1	0	0	0	2	2	0	0	0	1	6
Ghana	0	0	0	0	0	0	0	0	2	1	3
Hong Kong	4	4	7	2	5	2	5	3	8	1	42
Lithuania	4	6	6	9	7	2	6	5	0	1	47
Thailand	0	1	5	9	2	1	1	6	1	1	29
Romania	3	4	5	10	6	1	3	3	1	1	38
Egypt	0	2	7	5	2	3	1	0	0	1	21
Taiwan	0	4	2	8	2	0	0	7	2	1	26
Indonesia	0	4	1	1	3	0	2	2	1	1	15
Monaco	0	0	1	0	0	0	0	0	0	0	1
Montenegro*	0	0	0	0	0	1	0	0	0	0	1
Pakistan	0	0	0	0	1	1	0	0	0	0	2
Palestinian Territory	0	0	0	0	0	1	0	0	0	0	1
Nicaragua	0	0	0	0	0	0	1	0	0	0	1
Nigeria	0	0	0	0	1	0	0	0	1	0	2
Oman	1	0	0	1	1	0	0	1	0	0	4
Peru	0	0	1	0	0	0	1	2	2	0	6
Panama	0	0	0	0	0	0	1	1	0	0	2
Papua New Guinea	0	0	0	1	0	0	1	0	0	0	2
Puerto Rico	1	0	1	0	0	0	0	0	0	0	2
Tanzania United Republic Of	0	0	0	0	1	0	0	0	0	0	1
Togo	0	0	0	1	0	0	0	0	0	0	1
Tunisia	0	0	0	0	0	0	0	0	1	0	1
Venezuela	0	0	0	1	0	0	0	0	0	0	1
Zambia	0	0	0	0	0	1	0	0	1	0	2
Uruguay	0	0	0	1	0	1	1	0	0	0	3

Country (target)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Rwanda	0	0	0	0	0	0	0	1	1	0	2
Saint Lucia	0	0	0	1	0	0	0	0	0	0	1
Senegal	0	0	0	0	1	0	0	0	0	0	1
Slovenia	1	1	5	6	6	1	0	0	1	0	21
Sri Lanka	0	0	1	0	0	0	1	1	2	0	5
Zimbabwe	0	0	0	1	0	0	0	0	1	0	2
Serbia	0	0	0	1	1	0	0	0	0	0	2
Serbia And Montenegro	0	1	0	0	0	0	0	0	0	0	1
Congo	0	0	0	0	2	0	0	0	0	0	2
Cameroon	0	1	0	0	1	0	0	0	0	0	2
Cote D' Ivoire	0	0	0	0	0	0	1	0	2	0	3
El Salvador	0	0	0	0	0	0	1	0	0	0	1
Dominica	1	0	0	0	0	0	0	0	0	0	1
Ecuador	0	0	0	0	0	0	0	0	1	0	1
Dominican Republic	0	0	1	1	0	0	0	0	0	0	2
Armenia	0	0	0	0	1	0	0	0	1	0	2
Bahamas	1	0	3	2	0	0	1	0	0	0	7
Azerbaijan	0	0	0	0	0	0	1	0	1	0	2
Algeria	0	0	1	0	0	0	0	0	0	0	1
Bahrain	0	1	0	0	1	1	0	0	0	0	3
Bosnia And Herzegovina	1	1	0	1	1	0	0	0	1	0	5
Bolivia	1	0	0	0	1	0	0	0	0	0	2
Barbados	0	0	0	0	0	1	0	2	0	0	3
Belarus	0	0	1	0	0	0	0	0	0	0	1
Belize	0	0	0	1	0	0	0	0	0	0	1
Macedonia (Fyrom)	1	0	0	0	0	0	1	1	0	0	3
Kuwait	0	0	0	6	1	3	4	0	1	0	15
Kyrgyzstan	0	1	0	0	0	0	0	0	0	0	1
Mauritius	0	0	1	1	1	0	0	1	0	0	4
Mexico	3	2	4	4	3	3	5	1	5	0	35
Moldova Republic Of	0	0	1	0	0	1	0	0	0	0	2
Marshall Islands	0	0	1	0	2	0	0	1	0	0	4
Malta	0	1	0	0	0	0	1	1	2	0	5
Guatemala	0	0	1	0	0	0	0	0	0	0	1
Gabon	0	0	0	0	1	0	0	0	0	0	1
Jordan	0	1	0	2	3	0	0	0	1	0	7
Kenya	0	0	1	1	0	0	0	0	1	0	3
Iceland	2	4	7	6	0	0	1	3	1	0	26
Unknown	8	4	5	5	7	10	5	11	2	5	62
Total	1 492	1 988	2 060	2 337	1 772	1 124	1 832	2 167	2 308	1 588	18 949

Therefore as per the analysis of the data obtained, it is evident that the activity of private equity exits in South Africa is quite negligible as a proportion of total international activity and in comparison to other countries with high private equity exit activity such as the USA. Private equity fund managers should consider the potential that is yet to be realized through private equity activity in the South African context. Private equity can play a major role in the economy of South Africa through more aggressive investment and growth strategies in order to broaden the spectrum of investment opportunities which are to be exploited for value creation and realization.

CHAPTER V – CONCLUSION AND RECOMMENDATIONS

The South African business environment faces unique challenges and obstacles (Buhlungu, 2006). This places great emphasis on thorough private equity exit execution through an appropriate exit medium in order to return sufficient value to private equity fund holders. The GDP growth rate is a basic indicator of the macro-economic performance of a country on an annual basis. This is relevant for the investment and exit strategies of private equity managers as the economic environment within which investment value is managed for private equity fund capital contributors is essential for the timing, nature and extent of private equity fund exit strategies. An improvement in the macro-economic performance of a country, is a reflection of an increase in disposable income and spending by individual and institutional investors.

During favorable economic cycles, private equity fund managers may consider exit mediums which will seek to attract investors in the most efficient manner in order to realize private equity investment value. As more disposable income becomes available in the context of more favorable macro-economic growth indicators, investors are more likely to seek investment opportunities through easily accessible and well established public investment platforms such as public securities exchanges. Therefore, private equity fund managers may need to consider the IPO exit medium during such economic climates in order to realize the value created as an IPO seeks to attract investors who readily commit their disposable income for investment purposes.

During unfavorable macro-economic cycles as is indicated by a decline in GDP growth rates, investor's disposable income is likely to diminish in the hands of investors. This may result into less investment through public investment platforms such as public securities exchanges as investors may become less inclined to invest through such means as less demand for publicly traded securities is likely to be observed due to a decline in disposable income in the hands of investors. Investors with sufficient disposable income for investment purposes, may seek alternative investment platforms during unfavorable macro-economic climate in order to maximize their return on investment. Therefore, private equity fund managers may need to consider the M&A exit medium which seeks to attract investors who are more inclined to commit their disposable income through non-public investment platforms such as public securities exchanges.

M&A's require direct negotiation and bargaining with investors as prospective business acquirers. Therefore, the success of private equity M&A exit mediums may not be directly or indirectly influenced by a favorable general economic environment as may be indicated by economic indicators such as annual real GDP growth rates. Instead, PE M&A exit mediums may be more successful during unfavorable general economic climate as investors with disposable income avoid publicly traded securities by IPO's during economic decline.

It is evident that the dominant private equity exit medium is IPO as compared to M&A. In addition, as per the relationship between the exit mediums and general economic climates, it is evident that PE IPO exit mediums are more successful during favorable economic conditions as indicated by general economic indicators such as the real GDP growth rate. It is also evident that PE M&A exit mediums are more successful during less favorable economic conditions as indicated by general economic indicators such as the real GDP growth rate. Private equity fund managers should take a combination of these factors into consideration in the selection of a private equity exit medium that is to be executed in order to realize maximum value from the relevant private equity investment.

The dominant type of acquisition finance at the point of private equity exit in South Africa is private equity. This implies that certain investments are particularly attractive to private equity investors and are therefore refinanced through private equity by subsequent acquirers.

It is evident that the activity of private equity exits in South Africa is quite negligible as a proportion of total international activity and in comparison to other countries with high private equity exit activity such as the USA. Private equity fund managers should consider the potential that is yet to be realized through private equity activity in the South African context. Private equity can play a major role in the economy of South Africa through more aggressive investment and growth strategies in order to broaden the spectrum of investment opportunities which are to be exploited for value creation and realization.

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